

# Making Use of IRAs as Part of an Estate Plan

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There are effective uses of an IRA as part of the estate planning process that most retirees have prepared for. These steps include:

- Taking taxable withdrawals from your IRA when your tax bracket is lowest, often right after retirement,
- Completing your beneficiary designation forms in a consistent manner with your estate planning documents, and
- Avoiding naming your estate as your IRA beneficiary.

However, it is a common misconception that once you designate a beneficiary for your individual retirement account (IRA) assets, either through your investment adviser or a retirement plan provider, those assets are taken care of in regard to estate planning.

It is true that this step does affirm who will receive your retirement assets at passing; however, in order to complete a holistic estate plan, other key issues should be addressed.

It is best to consult a professional to review your personal situation and guide you through the process to build and implement your customized strategy. These professionals may include, but are not limited to, your personal financial adviser, a tax professional or your estate planning attorney. These advisers will have the unique skills and knowledge about these various strategies to help effectively coordinate them with you and necessary legal counsel.

There are three complex estate planning strategies for retirement dollars that are often not addressed prior to passing, yet may have sizeable tax effects to an individual's estate.

## **Bequest Your IRA to Charity**

Many of us are charitably inclined, but could be financially unable to commit a large sum of funds to the causes we are passionate about during our lifetime. Utilizing your retirement assets to make a charitable bequest at your passing is a tax-efficient method of reducing your taxable estate while providing a generous gift to a cause you support. By bequeathing your IRA to a tax-exempt entity (e.g., the YMCA or a public non-profit university), the funds will transfer to the charity tax-free. The charitable beneficiary will receive the entire benefit of your bequest and your estate will receive the full charitable deduction for estate tax purposes, reducing the size of your taxable estate. Depending

on the size of your estate and your state of domicile, this deduction could mean the difference between your estate being over or under the federal or applicable state estate tax exclusion limit.

The federal estate tax rate is currently legislated at a flat 40% tax on estate assets in excess of the exclusion limit (\$5.34 million in 2014 and indexed for inflation), with the tax paid by the estate.

When deciding whether to implement a tax-specific estate planning strategy, be sure to contact your personal tax professional.

### **Name Grandchildren as Roth IRA Beneficiaries**

A second way to use your IRA as part of a holistic estate plan is to complete and maximize the tax efficiencies of a Roth conversion. If a wealthier individual who may have estate tax exposure converts a traditional IRA to a Roth IRA and pays the taxes with non-retirement dollars, there are various advantages to this strategy.

First, by having the grantor name their grandchildren as the beneficiary, and applying their generation-skipping tax (GST) exemption to the Roth IRA assets, upon inheriting the Roth IRA, the grandchildren can take tax-free distributions over the remainder of their lives. This stretches out the continued tax-free growth of the Roth IRA over many years. The key to effectively utilizing this method is to name the third generation of your family as beneficiaries. Secondly, you reduce the size of your taxable estate by prepaying income taxes generated from the Roth IRA conversion. These taxes would ordinarily be owed when IRA withdrawals are made by the owner or beneficiary.

When considering this strategy many investors wonder which type of investment assets are best suited to be converted to a Roth IRA. Each investor has a different intent for those assets, so the answer is not black and white. If you intend to transfer these assets to the third generation (grandchildren, etc.), high-growth-oriented investments may be most suitable. The bottom line is that any investment allocation with the potential to appreciate at a healthy pace would provide maximum benefit in a tax-free vehicle, such as a Roth IRA. Consult with your financial adviser or portfolio manager when structuring your asset allocation.

### **Disclaim an IRA Inheritance**

An often-overlooked aspect of IRA estate planning does not take place until after the IRA owner passes away. It is the ability for the primary beneficiary to disclaim either a portion of or an entire IRA inheritance in favor of the next beneficiary(s) in line. This effectively “pushes down” assets to

the contingent beneficiary(s) designated in the IRA account documents. This is often the next generation in a family. The result will ensure the goals of the decedent are consistent with the needs of the family and/or heirs, thus maximizing the family wealth for future generations.

For example, it may be in the best interests of the family for a surviving spouse to disclaim IRA assets, pushing them down to the named contingent beneficiaries. By bypassing the primary beneficiary, these assets do not add to an otherwise potentially taxable estate for the surviving spouse. Another example would be a case where one or more of the adult children is named as the primary beneficiary of a parent's IRA and is already financially secure. By choosing not to accept the IRA assets, through the process of disclaiming, these funds could transfer to another beneficiary and provide a means of liquidity for that individual.

While there are a number of steps that must be taken in order to utilize the disclaiming process, it may be well worth your time to explore the benefits that this final planning opportunity presents. This strategy should be coordinated with your financial adviser and estate planning attorney.

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